



WEEKLY REPORT

ARIZONA STATE RETIREMENT SYSTEM

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For the week ending Friday, May 16, 2003

Weekly Report is published by the Arizona State Retirement System (ASRS) and provides a summary of legislation that pertains to the ASRS, as well as up-to-date ASRS news. We hope you find it useful. Included is a Quick Reference bill summary. If there are issues you'd like addressed, please let us know.

***** Please distribute or make this report available to your employees. *****

ASRS News:

- The next ASRS Board meeting is scheduled for Friday, June 20 at 8:30 a.m., in the ASRS Phoenix office, 3300 N. Central Ave. This meeting had previously been scheduled for Flagstaff, but the Board has moved the meeting to Phoenix and pledged to hold a meeting in Flagstaff at a later date, possibly in the fall when schools are in session and member teachers and administrators would be more likely to be able to attend. ASRS Board meetings are always open to the public and your attendance is encouraged. Meeting schedules, agendas and minutes are available on our website.

Next Week in the State Legislature:

- The Legislature voted Thursday to extend its session through Wednesday, although no ASRS legislation is pending for a vote.

ASRS Legislation NEWS

Things are winding down at the Capitol. During the past week, however:

- **HB 2455, ASRS; termination option**, was been signed by the Governor.
- **HB 2349, public retirees; rural areas; insurance**, was passed on Final Read and has been sent to the Governor.
- **SB 1224, NOW: supplemental defined contribution plan; procedures**, was passed on Final Read and has been sent to the Governor.

Of all the Legislation proposed by the ASRS, only one bill was not passed (SB 1226). Our thanks go out to our ASRS Board members for their support and assistance throughout the session. And, we also owe a debt of gratitude to our prime Committee Chairs, Representative Huppenthal, of the House Government and Retirement Committee, and Senator Martin, of the Senate Finance Committee. Both of these Legislators worked very hard to assist the ASRS, our members and our employers!

Other legislation affecting the ASRS is listed in the attached **Quick Reference**.

Quick Reference
ASRS Related Legislation
(Updated through Friday, May 16, 2003)

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
Chapter 132 – HB 2023 – ASRS; unpaid contributions by Huppenthal As Chaptered: <ul style="list-style-type: none"> Provides a member with 90 days to make payments after being notified that the employer has paid. If the member does not pay within 90 days, the member is responsible for accrued interest from that date. Provides an employer with 90 days to make payments after being notified of the amount due. If the employer does not pay within 90 days, the employer is responsible for any accrued interest until the amount is paid in full. Requires the person initiating the request to provide verification of past employment. States that, beginning July 1, 2004, the employer is only responsible for making payments for service worked within 15 years of the date of the request. Allows a member to purchase service that was worked prior to the 15-year limit as “other public service.” Provides a member until July 1, 2004 to purchase service worked prior to the 15-year limit under current procedures. States that an ASRS determination of eligibility is appealable to the ASRS Board. 	Passed House 56-0-2. Passed Senate 28-0-2. Status: Chapter 132. Effective upon general effective date.	As Chaptered: None Expected.	As Chaptered: Actuarial letter received stating no cost.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
Chapter 164 – HB 2024 – ASRS; service purchase; calculation by Huppenthal As Enacted: Contains an emergency clause. <ul style="list-style-type: none"> Defines “current annual compensation” used in calculating the cost of purchasing service credit as the greater of: <ol style="list-style-type: none"> The sum of the 12 months of compensation prior to the request. The sum of the 36 months of compensation prior to the request, divided by three. If the member has retired from an ASRS employer, the average monthly compensation used to calculate the member’s last pension, times 12. The annualized compensation of the full pay period prior to the request. The annualized compensation of the partial year prior to the request, if the member has less than 12 months of service. Requires the ASRS to recalculate the cost of military service purchased by members (active, retired, or deceased) prior to July 20, 1996, and refund any amounts, plus interest. Requires the ASRS to publish a notice of possible refund in 4 quarterly newsletters and 2 annual statements. 	Passed House 56-0-4. Passed Senate 30-0-0. Status: <u>Chapter 164.</u> <u>Effective 05/07/03.</u>	As Enacted Requested.	As Enacted: <i>“Current Annual Compensation”</i> definition: Actuarial letter received stating no cost. <i>Military Service Purchase Refunds:</i> Potential unfunded liability of \$628,050, and increase in the contribution rate for all employers and employees of .00045%. However, because the contribution rate is rounded, there will be no actual contribution rate change.
HB 2067 – ASRS; technical correction by Huppenthal As Introduced: Makes a technical change to 38-742 “reinstatement.”	Assigned: Hse. RULES. Status: Awaiting Hse. RULES. DEAD (?)	As Introduced: None Expected.	As Introduced: None.
HB 2349 (see SB 1036) – public retirees; rural areas; insurance by Konopnicki, Flake, Wagner, Arzberger, and Brown As Transmitted to the Governor: <ul style="list-style-type: none"> Extends the rural health insurance subsidy for two-years. Establishes minimum out-of-pocket premium costs for health coverage in order to be eligible for the rural subsidy. Requires that the rural subsidy can only be applied to medical insurance premiums. Provides that the family-rate rural subsidy is only available if the retiree has family medical coverage. Requires the ASRS to provide a report to the Legislature on accessibility and affordability of health insurance coverage for retirees. Appropriates \$183,000 from the ASRS administration account to the ASRS for implementation costs. 	<u>Passed House 51-4-5.</u> <u>Passed Senate 30-0-0.</u> Status: <u>Transmitted to Governor 05/15/03.</u> <u>Awaiting Signature.</u>	As Transmitted: \$183,000 one-time implementation cost.	As Transmitted: Unfunded liability of \$19.8 million, an increase in the contribution rate for all employers and employees of 0.014% each, which is a combined cost of \$2.0 million more in contributions annually for 18 years (GF cost of \$225,000 per year).

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
HB 2397 (see SB 1296) – public monies; investment protection by Yarbrough, Martin, Huppenthal, and 4 As Amended in Hse. WM (Strike Everything): <ul style="list-style-type: none"> Requires all asset managers that invest in equities on behalf of this state to submit an annual report to the entity on whose behalf they are investing. Requires affected state entities to provide an annual report to the governor, president of the senate, speaker of the house of representatives and the chairpersons of the house ways and means committee and the senate finance committee. Defines “federal designated terrorist sponsoring country or government” to mean those countries or governments that are designated as terrorist sponsoring by the U.S. Department of State, except Cuba. Only one company has been identified that could supply a portion of the required information to the asset managers for a fee. 	Assigned: Hse. WM. Status: Passed Hse. WM DPA/SE 7-4-0-1. Awaiting Hse. RULES. DEAD (?)	As Amended: Requested.	As Amended: A potential increase in the contribution rate for all employers and employees of 0.64% each. Based on \$4 million increase in investment management fees, a 0.50% reduction (est. \$80 mil.) in investment return, and \$300,000 annually to purchase oversight services and prepare the reports. Potential litigation costs are not included.
HB 2398 – ASRS; long-term disability increase by Carruthers, O’Halloran, Gullett As Introduced: Provides an increase to a member’s LTD benefit equal to a benefit increase provided to a retired member of ASRS.	Assigned: Hse. GR, Hse. APPROP. Status: Awaiting Hse. GR. DEAD (?)	As Introduced: Not requested.	As Introduced: Unfunded liability of \$56.0 million, an increase in the LTD contribution rate for all employers and employees of 0.09% each, which is a combined cost of \$7.4 million more in contributions annually (GF cost of \$1.8 million per year).
HB 2401 – deferred retirement option plan by Wagner, Quelland, Gray, and 6 As Introduced: Provides a deferred retirement option plan option to members of the ASRS, PSPRS, and CORP.	Assigned: Hse. GR, Hse. APPROP. Status: Awaiting Hse. GR. DEAD (?)	As Introduced: Not requested.	As Introduced: Unfunded liability of \$634.8 million, an increase in the contribution rate for all employers and employees of 0.45% each, which is a combined cost of \$31.5 million more in contributions annually for 17 years (GF cost of \$7.5 million per year).
Chapter 196 – HB 2455 – ASRS; termination option by Huppenthal As Chaptered: Makes technical changes to the Modified DROP Program.	Passed House 57-0-3. Passed Senate 29-0-1. Status: <u>Chapter 196.</u> <u>Effective upon general effective date.</u>	As Chaptered: None Expected.	As Chaptered: None.

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HCR 2002 – impeachment; public retirement systems; forfeiture by Huppenthal As Introduced: Constitutional amendment to allow the senate to require an impeached official to forfeit their public retirement benefits from the office for which they were impeached.	Assigned: Hse. GR, Hse. JUD. Status: Awaiting Hse. GR. DEAD (?)	As Introduced: None Expected.	As Introduced: None.
HCR 2029 – public monies; investment protection by Nichols, Verschoor As Introduced: Urges all asset managers and financial firms that invest or manage monies on behalf of the state to submit semiannual reports concerning companies engaged in business practices within a country designated by the United States Department of State as one that supports terrorist activities.	Assigned: Hse. GR, Hse. APPROP. Status: Passed Hse. GR DP 10-0-0-2. Awaiting Hse. APPROP. DEAD (?)	As Introduced: Requested.	As Introduced: Not Requested. (If implemented, cost may be the same as SB 1296 and HB 2397.)
SB 1036 (see HB 2349) – public retiree health insurance subsidy by Arzberger and 23 As Amended in Hse. Health: <ul style="list-style-type: none"> Establishes minimum out-of-pocket premium costs for health coverage in order to be eligible for the rural subsidy. Provides that the family-rate rural subsidy is only available if the retiree has family medical coverage. 	Passed Senate 25-5. Assigned: Hse. HEALTH, Hse. GR, Hse APPROP. Status: Passed Hse. HEALTH DPA 11-0-0-1. HELD Hse. GR 04/01/03. DEAD (?)	As Amended: \$185,000 one-time implementation cost.	As Amended: Unfunded liability of \$19.8 million, an increase in the contribution rate for all employers and employees of 0.028% each, which is a combined cost of \$2.0 million more in contributions annually for 18 years (GF cost of \$225,000 per year).
Chapter 171 – SB 1037 – ASRS; surviving spouses; health insurance by Arzberger and 17 As Chaptered: Provides a retiring member who selects a joint and survivor or period certain annuity the ability to select an optional health insurance subsidy that continues to the contingent annuitant after the member's death. Appropriates \$537,000 from the ASRS administration account to the ASRS for implementation costs.	Passed Senate 29-0-1. Passed House 58-0-2. Status: Transmitted to Governor 05/01/03. Signed 05/07/03. <u>Chapter 171. Effective upon general effective date.</u>	As Chaptered: \$537,000 one-time implementation cost.	As Chaptered: Actuarial letter received stating this bill is cost neutral.
SB 1160 (see HB 2024) – ASRS; veterans; service credits by Arzberger As Introduced: <ul style="list-style-type: none"> Requires the ASRS to recalculate the cost of military service purchased by members (active, retired, or deceased) prior to July 20, 1996, and refund any amounts, plus interest. Requires the ASRS to publish a notice of possible refund in 4 quarterly newsletters and 2 annual statements. Appropriates \$50,000 to the ASRS for making the recalculations. 	Assigned: Sen. FIN, Sen. APPROP. Status: Awaiting Sen. FIN. DEAD (?)	As Introduced: Requested.	As Introduced: Potential unfunded liability of \$628,050, and increase in the contribution rate for all employers and employees of .00045%. However, because the contribution rate is rounded, there will be no actual contribution rate change.

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SB 1221 – ASRS; study committee; health costs by Arzberger, Aguirre, Brotherton As Amended in Sen. FIN: Creates a study committee on managing retiree health-care costs.	Assigned: Sen. FIN. Status: Passed Sen. FIN DPA 6-0-3. Passed Sen. RULES PFC. Awaiting Sen. COW. DEAD (?)	As Amended: None Expected.	As Amended: None.
SB 1224 – NOW: supplemental defined contribution plan; procedures by Martin, Reagan As Transmitted to the Governor: Makes changes to the supplemental defined contribution plan in order to conform to IRS requirements. <ul style="list-style-type: none"> Requires an employee to make an election to participate in the Plan within two years after the employee first becomes eligible to participate in the Plan. States that an election to participate in the Plan is irrevocable and continues for the remainder of employment. Allows the employer to annually increase or decrease the employee contributions in increments of one per cent up to the maximum allowed by law OR requires the employee to make one-time irrevocable elections of the employee's contribution amount. Clarifies the procedures for employer matching contributions. 	Passed Senate 30-0-0. <u>Passed House 48-0-12.</u> Status: <u>Transmitted to Governor 05/16/03.</u> <u>Awaiting Signature.</u>	As Transmitted: None Expected.	As Transmitted: None.
Chapter 63 – SB 1225 – ASRS; investment management; requirement by Martin As Chaptered: Amends A.R.S. 38-718 to correct for the change in name of the organization responsible for awarding the chartered financial analyst designation from "institute of chartered financial analysts" to the "Association for Investment Management and Research."	Passed Senate 30-0. Passed House 53-1-6. Status: Chapter 63. Effective upon general effective date.	As Chaptered: None Expected.	As Chaptered: None.
SB 1226 – ASRS; legal counsel by Martin As Introduced: Exempts the ASRS from obtaining legal counsel only from the Attorney General.	Assigned: Sen. JUD, Sen. FIN. Status: Passed Sen. FIN DP 8-0-1. FAILED Sen. JUD 3-4-2. Scheduled, not heard Sen. JUD 02/26/03. DEAD (?)	As Introduced: None Expected.	As Introduced: None.

BILLS	BILL STATUS	ASRS ADMIN. COST	ACTUARIAL COST
SB 1296 (see HB 2397) – public monies; investment protection by Martin, Stump, Yarbrough As Passed the Senate: <ul style="list-style-type: none"> Requires asset managers and financial firms that invest money on behalf of the state to submit annual reports if they have identified that they invest state money in companies that are listed on the US Treasury Department's Office of Foreign Assets Control specially designated nationals' and blocked persons list. The report must include a list of companies that the fund manager holds that are on the list, as well as alternative investment strategies and their impact on the funds and how the portfolio could be altered to exclude those companies. Prohibits any fund manager that fails to provide a report from investing money on behalf of the state. Establishes a task force to study ways for public funds managers to mitigate the risks when investing in companies that have ties to terrorist sponsoring countries and ways and methods to limit investments in companies with ties to terrorist sponsoring countries without compromising portfolio returns. Repeals the task force on December 31, 2004. 	Passed Senate 16-10-4. Assigned: Not yet assigned. Status: Awaiting Hse. First Read. DEAD (?)	As Passed the Senate: Requested.	As Passed the Senate: Requested.

LEGEND

AMEND C&P	Constitutional and Proper as Amended by the House Rules Committee	HB	House Bill
APPROP	Appropriations Committee	HCR	House Concurrent Resolution
ASRS	Arizona State Retirement System	HHR	House Hearing Room
C&P	Constitutional and Proper	Hse.	House of Representatives
CORP	Corrections Officer Retirement Plan	JUD	Judiciary Committee
COW	Committee of the Whole	LTD	Long Term Disability
DP	Do Pass	PFC	Proper for Consideration
DPA	Do Pass as Amended	PFCA	Proper for Consideration as Amended by the Senate Rules Committee
EORP	Elected Officials' Retirement Plan	PSPRS	Public Safety Personnel Retirement System
FII	Financial Institutions and Insurance Committee	SB	Senate Bill
FIN	Finance Committee	S/E	Strike Everything Amendment
GF	General Fund	Sen.	Senate
GOV	Government Committee	SHR	Senate Hearing Room
GR	Government and Retirement Committee	WM	Ways and Means Committee

**The weekly legislative report is available on-line at the ASRS Web site:
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If you have questions relating to legislation, please contact ASRS Government Relations Officer Kelly Orrick at (602) 240-2027 or via email at KellyO@asrs.state.az.us